Analyzing effects of service encounter quality on customer satisfaction in banking industry

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A R T I C L E I N F O	A B S T R A C T
	Service quality represents a modern approach for quality in enterprises and organizations and serves the development of a truly customer-focused management and culture. Measuring service quality offers an immediate, meaningful and objective feedback about clients' preferences and expectations. In this paper, we study the relationship between customer perceptions from service encounter quality and loyalty of customer to organization and employees. The proposed study is implemented for banking sector in Iran using SERVQUAL factors and considers various factors influencing the quality of service. The results of the survey indicate that service quality systems, customer satisfaction are the most desirable factors based on the feedback we received from the customers. In addition, response to customers and loyalty to employees, service encounter quality, service and loyalty to organization, arrangements are in the next levels, respectively.

1. Introduction

Service quality has been one of the most frequently used devices for measuring the impact of various factors in different businesses such as banking industry (Kang & James, 2004). One important change in global economy is the significant growth of service industry especially in developing countries. Customer service is a distinct component of both product and service sectors and with the developments in information technology many business find demanding and knowledgeable customers. The worldwide trend towards service quality was initiated in early eighties when businesses realized that a quality product, in itself, is not guaranteed to maintain competitive advantage (Van der Wal et al., 2002).

Many researchers recognized that service quality is able to empower an organization and create competitive advantage (Moore, 1987; Lewis, 1989). Quality of services' content can be the distinction

between success and failure in both service and manufacturing organizations. Service quality, customer satisfaction and customer value are the main concern of both manufacturing and service organizations in the increasingly intensified competition for customers in today's customer-centered era (Wang et al., 2004).

2. Literature review

2.1. Service quality

Service quality is known as the basis of multiple dimension studies (Gronroos, 1982, 1990; Parasuraman et al., 1985), there is no general agreement as to the nature or content of the dimensions (Brady & Cronin, 2001). Lehtinen and Lehtinen (1982) defined service quality in terms of physical quality, interactive quality and corporate (image) quality. Physical quality is associated with tangible aspects of the service. Interactive quality involves the interactive nature of services and refers to the two-way flow, which occurs between the customer and the service provider, or his/her representative, including both automated and animated interactions. Corporate quality refers to the image attributed to a service provider by its current and potential customers, as well as other publics. They also suggested that, when compared with the other two quality dimensions, corporate quality tends to be more stable over time.

A common definition of service quality is that the service should correspond to the customers' expectations and satisfy their needs and requirements (Edvardsson, 1998). Therefore, many organizations extremely consider service quality to obtain their customers' satisfaction and loyalty. In some manufacturing industries, "service quality" is considered as more important order winner than "product quality" (Ghobadian et al., 1994). Service quality improvements lead to customer satisfaction and cost management, which result in improved profits (Stevenson, 2002). The International Standardization Organization (ISO) defines a service as a part of the total production concept (Edvardsson, 1998). Services are often "invisible" and thus difficult for the supplier to explain and for the customer to assess.

Edvardsson (1998) believes that the concept of service should be approached from a customer perspective. It is the customer's total perception of the outcome, which is "the service". It forms the perception of quality and determines whether a particular customer is satisfied or not. Customers have different values and different grounds for assessment, they may perceive one and the same service in different ways. Measuring the quality of service outputs is often more difficult than measuring the quality of a good quality service, because services are abstract rather than concrete, transient rather than permanent, and psychological rather than physical (Meredith & Shafer, 2002).

2.2. Customer satisfaction and loyalty

There are tremendous efforts for measuring customer satisfaction and service quality and there are literally various methods to define customer satisfaction and service quality. Yazdanpanah and Gazor (2012), in assessing success factors of electronic customer relationship management (ECRM) system mentioned that proper ECRM could increase customer satisfaction and improve services. Oliver (1997) defined satisfaction as "the consumer's fulfillment response, the degree to which the level of fulfillment is pleasant or unpleasant". Zeithaml and Bitner (2000) defined customer satisfaction as the "customers' evaluation of a product or service in terms of whether that product or service has met their needs and expectations".

Parasuraman et al. (1988) conceptualized customer evaluations of overall service quality as the gap between expectations and perceptions of service performance levels. They developed the SERVQUAL instrument for measuring service quality offered by service firms. Customer satisfaction, which refers to "the summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer's prior feelings about the consumption experience" (Oliver, 1981), is often considered as an important determinant of repurchase intention (Liao et al., 2009) and customer loyalty (Eggert & Ulaga, 2002). It is the most important research topic in the information system area (Au et al., 2008).

Customer satisfaction reflects the degree of a customer's positive reaction for a service provider in a bank context, it is necessary for service providers (bank) to recognize the customer's vision of their services. A high level of customer satisfaction can have a positive impact on customer loyalty (Deng et al., 2010). If a service provider can satisfy the needs of the customer better than its competitors, it is easier to create loyalty (Oliver, 1999). Fornell (1992) stated that high customer loyalty is mainly caused by high customer satisfaction. Clarke (2001) proposed that effective satisfaction must be able to create loyalty amongst customers. Previous studies have demonstrated that customer satisfaction positively affects customer loyalty (Cho et al., 2008) or negatively affects switching intention (Walsh et al., 2006).

2.3. The SERVQUAL instrument

The term of service quality has become a controversial discussion in terms of definition as well as measurement since there is not a crystal clear definition for this phrase. During the past few years, SERQUAL has become the most popular method for assessing service quality (Van der Wal et al., 2002; Wisniewski, 2001; Harvey, 1998; Curry & Sinclair, 2002; Van derWal et al., 2002; Gabbie & O'Neill, 1997). Parasuraman et al. (1985) is believed to be the first who introduced the conceptual framework for the SERVQUAL model to measure consumer perceptions of service quality and later refined the model. The model was initially developed for financial services sector and it has been used for other sectors such as telecommunications, healthcare and hospitality (Curry & Sinclair, 2002; Van der Wal et al., 2002; Sultan & Simpson, 2000; Saleh & Ryan, 1991).

SERVQUAL considers service quality as the disparity between the expectations and perceptions of the customer, and the service actually delivered (Curry & Sinclair, 2002; Ninichuck, 2001). The Parasuraman et al. (1988) study modified the model to consider five dimensions: tangibles, reliability, responsiveness, assurance, and empathy, which are representative for performance standards, expertise and physical elements of the facility, employees' willingness to assist in a timely manner with their knowledge, and sensitivity (Kang, 2006). Although there is a general agreement that service quality has many dimensions (Gronroos, 1982, 1990; Berry et al., 1985; Parasuraman et al., 1985), there is not a precise definition on the exact nature and content of these dimensions (Brady & Cronin, 2001). Lehtinen and Lehtinen (1982) defined service quality in terms of physical quality, interactive quality, and corporate (image) quality. Physical quality is associated with tangible aspects of a service. Interactive quality studies the two-way interaction between a customer and a service provider or the provider's representative, including both automated and animated interactions. Corporate quality is associated with the image attributed to a service provider by its current and potential customers. The main activities of banks are to produce services and services are the main product of banks. The proposed study of our research is to use SERQUAL for one of Iranian banks

named Maskan. The main objective of this paper is to survey relationship between customer perceptions from service encounter quality and loyalty of customer to organization and employees. According to above mention, authors represent the main hypothesis as:

Main H: there is a positive relationship between customer perceptions from service encounter quality and customer loyalty to organization and employees.

The following sub-hypothesis are studied in this paper,

H1: There is a positive relationship between customer perceptions from service encounter quality and customer satisfaction.

H2: There is a positive relationship between customer perceptions from service encounter quality and customer satisfaction.

H3: There is a positive relationship between customer satisfaction and customer perceptions from quality services.

H4: There is a positive relationship between quality services and customer loyalty to organization.

H5: There is a positive relationship between customer satisfaction and customer loyalty to employees.

H6: There is a positive relationship between customer loyalty to employee and customer loyalty to organization.

3. Methodology

Research conceptual model presents critical factors of service encounter quality. After surveying and consulting with specialists and professors, and according to managers and employees of Maskan Bank we consider conceptual model given in Fig. 1. The proposed model considers five SERQUAL components including service encounter quality, service quality, customer satisfaction and customer loyalty and dimensions and indicators are shown in Table 1. For content validity of questionnaire, related academic professors, experts, and specialist and Maskan Bank experts were consulted and they confirmed the feedbacks. For assessing the internal consistency of the questionnaire, Cronbach's Alpha was used that is obtained 0.85, which is well above the minimum required level.

Table 1
Dimensions and indicators

Dimensions	Indicators
service encounter quality	Professional
	Courtesy employee
	Employee sincerity with customers
	Employee competency
service quality	Objectivity
	Reliability
	Guaranty
	Unanimity
customer satisfaction	…
customer loyalty	Customer loyalty to organization
	Customer loyalty to employees

4. Results

According to demographic data, more than 70 percent of respondents are male. More information is shown in Table 2. Descriptive statistic (frequency, mean, standard deviation.) was shown in Table 2. According to research data from Table 3, the factors of satisfaction, employee loyalty, service encounter quality, service quality and loyalty to organization had the highest scores respectively (3.78, 3.67, 3.60, 3.57 and 3.56) in Maskan Bank.
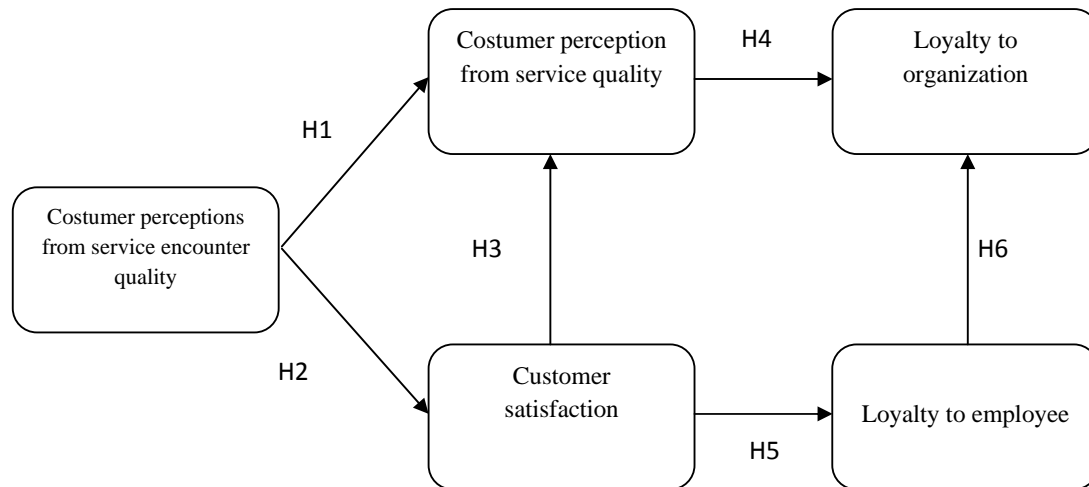
Fig. 1. Research conceptual model

Table 2
Demographic data of population

	Number	Percent (%)
Kind of activity		
Export	13	12.7
Business	32	31.4
Administrative	13	12.7
Personal	44	43.1
Sex		
Male	76	74.5
Female	26	25.5
Education		
High school	28	27.5
Diploma	31	30.04
Undergraduate	41	40.2
MS./MA	2	2
Ph.D	0	0

As shown in Table 3 commitments of employees received the highest ranking with the mean of 4.3 and knowledge level of employees played the lowest rank with mean rank of 3.59.

Table 3
Measure of statistic for every variable

Variable	Description	Frequency	Mean	Standard Deviation	Coefficient of variation
Service encounter quality	Politely contact of employees	102	4	1.062	0.265
	Rational and unimposing contact of employees	102	4	1.053	0.263
	Friendly and sincere contact of employees	102	4.01	1.004	0.25
	Information presentation	102	3.99	1.029	0.275
	Professional sufficiency of employees	102	3.99	1.048	0.262
	Skillful employees	102	4	1.019	0.25
Service quality	Having physical equipment	102	3.93	1.092	0.277
	Conformity of physical equipment with service kind	102	3.97	1.057	0.395
	Observing time framework in service present	102	3.96	1.151	0.29
	Sympathetically contact	102	3.98	1.062	0.4
	Confidentiality	102	3.96	1.080	0.27
	Respectfully behavior of employees	102	3.98	1.043	0.262
	Attention to customer	102	4	1.043	0.26
	Customer needs detection	102	3.97	1.047	0.263
Customer satisfaction	Knowledge level of employees	102	3.69	1.098	0.297
	Individually commitment of employees	102	4	1.038	0.259
	Presenting of useful information by employees	102	4	1.024	0.256
Loyalty to organization	Feeling pride in service using	102	4	1.048	0.262
	Encouraging to repeat service receipt	102	3.96	1.070	0.27
	To preference the organization	102	4	1.034	0.258
Loyalty to employees	To glad in working with employees	102	3.74	1.024	0.273
	To be sensitive on employees' destiny	102	3.99	1.076	0.269
	Having same expectations with employees	102	3.97	1.103	0.277

Table 4
Mean distribution of opinions of respondents to the dimensions of service encounter quality

Rank	Dimension	Amplitude
1	Customer satisfaction	3.78
2	Loyalty to employees	3.67
3	Service encounter quality	3.6
4	Service quality	3.57
5	Loyalty to organization	3.56

Mean distribution of opinions of respondents to dimensions of service encounter quality and questions of research in turn are shown in Table 4 and Table 5. In order to determine the relationship between research variables, Pearson correlation was utilized.

As indicated in Table 6 there was a direct and significant relationship between customer service satisfaction and customer perceptions from service encounter quality (r=0.81), and customer perceptions from service encounter quality (r=0.41), and customer perceptions from quality services (0.37). In addition, there was a direct and significant relationship between customer loyalty to organization and quality services (r=.73) and customer satisfaction (r=.31) and customer loyalty to employee (r=.73).

Table 5
Mean distribution of opinions of respondents to questions of research

Rank	No. of question	Description	Score
1	21	Individually commitment of employees	4.3
2	6	Politely contact of employees	3.77
3	26	To glad in working with employees	3.74
4	28	Having same expectations with employees	3.74
5	15	Sympathetically contact	3.64
6	14	Observing time framework in service present	3.62
7	19	Customer needs detection	3.61
8	7	Rational and unimposing contact of employees	3.59
9	25	To preference the organization	3.59
10	10	Professional sufficiency of employees	3.58
11	18	Attention to customer	3.58
12	8	Friendly and sincere contact of employees	3.56
13	22	Presenting of useful information by employees	3.56
14	23	Feeling pride in service using	3.56
15	16	confidentiality	3.55
16	17	Respectfully behavior of employees	3.55
17	24	Encouraging to repeat service receipt	3.55
18	27	To be sensitive on employees' destiny	3.55
19	9	Information presentation	3.54
20	11	Skillful employees	3.53
21	13	Conformity of physical equipment with service kind	3.51
22	12	Having physical equipment	3.5
23	20	Knowledge level of employees	3.49

5. Conclusion

In this paper, we have presented an empirical SERQUAL analysis for a real-world case study of banking industry in Iran. The results of the survey indicated that service quality systems, customer satisfaction were the most desirable factors based on what customers think. In addition, response to customers and loyalty to employees, service encounter quality, service and loyalty to organization, arrangements are in the next levels with the ranking of 3.56, 3.57, 3.6, 3.67, 3.78, respectively. Based on the feedbacks we received from the customers, loyalty to organization has become as the most undesirable factor. Note that all factors were well above 3 and all factors were in desirable level. Employee responsibility was also selected as the most desirable factor followed by other factors including employee impact politely, same employee expectations, the sense of satisfaction to work with employees and impact compassionately.

According to the results, question number 1 has upper than 4, in the other hand it had desirable between high and too high. Question number 22 had score upper than 3 and less than 4, in the other hand it has desirable between average and high. Table 6 summarizes the results of our survey and as we have found a positive relationship between customer perceptions from service encounter quality and customer satisfaction, a positive relationship between customer perceptions from service encounter quality and customer satisfaction, a positive relationship between customer satisfaction and customer perceptions from quality services, a positive relationship between quality services and customer loyalty to organization, a positive relationship between customer satisfaction and customer

loyalty to employees and a positive relationship between customer loyalty to employee and customer loyalty to organization.

Table 6
Summary of research results of hypotheses

Hypothesis	Level of confidence	Coefficient of correlation	Results
H1: There is positive relationship between customer perceptions from service encounter quality and customer satisfaction	0.95	0.808	accepted
H2: there is positive relationship between customer perceptions from service encounter quality and customer satisfaction	0.95	0.41	accepted
H3: there is positive relationship between customer satisfaction and customer perceptions from quality services	0.95	0.368	accepted
H4: there is positive relationship between quality services and customer loyalty to organization.	0.95	0.726	accepted
H5: there is positive relationship between customer satisfaction and customer loyalty to employees	0.95	0.311	accepted
H6: there is positive relationship between customer loyalty to employee and customer loyalty to organization	0.95	0.728	accepted

5.1. Suggestions for future works

Service quality is a potential context for further researches and experts can perform many surveys to improve level of this issue. Authors suggest areas that can study in future. For example, organizational profit, employee satisfaction, productivity, effectiveness and so on can be a list of variations that analyze their relationships with organization service quality.

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